



STAFF REPORT

PUBLIC HEARING TO CONSIDER A RESOLUTION APPROVING A RATE INCREASE FOR SOLID WASTE MANAGEMENT SERVICES

Honorable Mayor and Council Members:

Summary

The City of Belmont is running a deficit in its reserve balance account for solid waste management services so a rate increase is required. This report discusses several options to raise rates over one or more years and makes a recommendation for an increase this year and provides a plan for annual increases thereafter.

Background

The City of Belmont provides its residents and business solid waste and recycling services through contracts with BFI and sets the rates to fund these services. The City contracts directly for collection and obtains processing and disposal contract services through membership in the South Bayside Waste Management Authority (SBWMA). BFI's collection agreement ends on December 31, 2006 unless Council extends its term. Staff is recommending extension to December 31, 2010 as a separate action on this Council agenda.

BFI is paid on a "cost plus" basis meaning that the City agrees to reimburse BFI's actual costs plus pay a percentage profit. The rates need not be directly linked to BFI's payments. The rates fund a reserve balance account managed by SBWMA. SBWMA approves payment to BFI from this account after it reviews and approves BFI's annual cost application.

The City has approved two rate increases in the past five years. On March 14, 2000, the City raised residential rates 5.2 percent and commercial rates 13.6 percent (Resolution 8709). This provided sufficient reserves to cover costs for two years. On March 25, 2003, the City restructured and raised rates an average of 13.6 percent (Resolution 9384). The impact to the relatively low-volume residential customers was lower than the average due to the restructuring from regressive to progressive rates. The majority of residential customers with weekly service for one 32-gallon can saw a 6.2 percent increase. The second largest residential group with two cans saw a 12.5 percent increase. Larger volume dischargers saw increases over the 13.6 percent average. The April 2003 rate increase corrected a 2002 deficit, but failed to provide enough

reserve to carry the City three years without further increases as intended. On January 27, 2004, the City made a minor rate adjustment to reduce trash compactor rates since compactors had been disproportionately affected by the 2003 rate restructuring (Resolution 9503).

A November 2004 study performed by Hilton Farnkopf & Hobson (HF&H)¹ shows that Belmont's current rates are about 14 percent lower than the average of rates charged by other SBWMA agencies (see Table 1). This study also showed that as of January 1, 2005 Belmont had an 18.9 percent deficit to make up to come to neutral balance by the end of 2005. Belmont is the outlier in comparison to the other member agencies because it was the last member agency to restructure to progressive rates. This restructuring resulted in revenue reduction significantly larger than expected, as discussed below.

Table 1 Comparison of Typical Residential Rates and Reserve Balances in SBWMA Agencies Residential Monthly Cost for Two 32-Gallon Can Service				
Agency	Current Rate 32 Gallon	Current Rate 64 Gallon	<Over> Under Funded Reserve*	Last Increase
San Mateo City	\$10.50	\$23.09	<4.0%>	3%, 1/1/05
Burlingame	\$12.54	\$25.08	<7.4%>	17%, 1/1/04
Foster City	\$12.61	\$25.22	<15.1%>	15.35%, 1/1/04
Menlo Park	\$12.74	\$28.52	<10.4%>	4.8%, 1/1/04
Belmont	\$14.08	\$28.80	18.9%	13.6%, 4/1/03**
Redwood City	\$15.68	\$31.35	<7.3%>	6%, 1/1/01
San Carlos	\$15.07	\$32.07	<10.3%>	5%, 1/1/04
Hillsborough	\$21.71	\$43.42	<14.4%>	19%, 3/1/00
Atherton	\$23.68	\$47.36	<38.2%>	8%, 1/1/02
East Palo Alto	\$25.13	\$50.26	<41.1%>	33%, 7/1/02
Average	\$16.37	\$33.52		

*Over or Under Funded Reserve shows the percentage that rates would need to be raised or lowered on January 1, 2005 to have a zero balance on December 31, 2005. Reserve balance projections adjusted for post-study increases and a pending disposal rate decrease that will be effective January 1, 2005 if all collection agreements are extended four years.

**This represents an average rate increase. Belmont rates were restructured from regressive to progressive by volume on 4/1/03. This resulted in rate reductions for the lowest volume dischargers and increases up to 68% for the highest volume dischargers.

On December 31, 2004, Belmont's reserve balance was deficient by \$292,536 or 9.2 percent based on annual revenues of \$3,183,756. At the time of the November 2004 study, this deficit was projected to increase to \$603,193 or 18.9 percent by December 31, 2005 if rates were not

¹ Hilton Farnkopf & Hobson, LLC. "Review of BFI-San Mateo's Refuse, Recyclable, and Plant Materials Collection Rate Application of 2005" prepared for the South Bayside Waste Management Authority. November 11, 2004.

increased. The most current information indicates the deficit would be about two percent greater due to adjustments in the transfer station food and organic waste rates.

There were a number of factors affecting the City's current and projected reserve balance that were not anticipated at the time of the rate study completed in 2003. These include reduced revenue, additional costs and higher than expected costs, and reduced disposal costs.

1. **Reduced Revenue:** Revenue was less than the March 2003 rate study projection. The City expected to receive a of revenue increase of 13.6 percent from the 2003 adjustment, but received much less because customers reduced their service levels more than anticipated. This is attributed to the rate restructuring coupled with the economic down turn. Belmont was the last member agency to restructure from regressive rates. The purpose was to encourage recycling because customers save money by reducing their garbage service levels. Customers do not directly pay for recycling service. The rate study anticipated a revenue reduction but did not adequately anticipate its magnitude. Many large commercial customers who experienced rate increases up to 68 percent from the restructuring cut back upon realizing they were signed up for more frequent service than needed. Reducing trash compactor rates also reduced revenue. The projected revenue of \$3,377,766 for 2004 was about 6 percent higher than the actual revenue of \$3,183, 756. This discrepancy compounds in following years.
2. **Unanticipated Costs:** On January 27, 2004 the City authorized BFI to begin a commercial food and organics waste recycling program. The program both encourages commercial recycling and demonstrates the City's good faith effort to comply with the State's 50 percent diversion mandate. Fourteen Belmont businesses joined the program and BFI is actively recruiting additional businesses. This program increases recycling costs about 2 to 4 percent.

On February 22, 2005, the City approved an annual solid waste vehicle impact fee of \$110,000. This fee compensates the City for the wear and tear on residential street pavement caused by BFI vehicles. This is a pass-through operating cost for BFI that is covered by service rates. The fee is about a 3.5 percent of current revenue and adds to our deficit balance.

BFI's annual operating costs increases of 5.8 percent since 2003 were more than anticipated. BFI's labor benefits increased 15 percent in 2005. BFI workers organized with the International Brotherhood of Teamsters and negotiated benefits through a collective bargaining agreement in October 2003. BFI's fuel costs also increased 20 percent upon expiration of a five-year fixed price contract.

3. **Disposal Agreement Cost Reduction:** On April 6, 2005, the SBWMA approved a 15-year disposal agreement with BFI for the Ox Mountain Landfill. The reduction is retroactive to January 1, 2005. The agreement provides most-favored client rates for SBWMA. It will reduce Belmont's future waste management service costs by about 7 percent. This

agreement will not be effective until all member agencies extend their collection agreements for four years.

The disposal agreement also specifies that BFI make cash payments of \$11,600,000 to SBWMA in quarterly payments over the next three years. These funds are not considered in any of the rate projections discussed in this report because their deposition is not known at the time of this writing. The SBWMA Board will begin discussing means to allocate this money at its April 28 Board meeting. One option to be considered is distribution of some or all of the money to the member agencies. Belmont would receive about \$600,000 if the money were fully distributed to the members and could choose to use some or all of it to pay down to its deficit. Other options that SBWMA will consider are to invest the money into various recycling programs and facilities. This would yield long-term savings or fine avoidance to the extent that these programs improve compliance with the AB939 recycling mandate.

Discussion

Staff asked HF&H to study Belmont's solid waste service revenues, costs, and reserve balance to prepare several options to phase in rate increases over one, two, three and four years for the Council's consideration (attached.) HF&H developed four representative rate increase options and modeled the corresponding annual reserve balances for the next five years. HF&H also modeled the "no action" alternative to provide a baseline comparison. There are many variations on these options that could be developed, but the four that are presented are intended to bracket the range of reasonable alternatives. Council is asked to approve only the first year of the multi-year increases at this time. The following year increases represent a plan of action subject to further refinement. We expect that refinements will be needed because both costs and revenues depend on multiple factors that fluctuate over time. HF&H assumed BFI costs continue growing 5.79 percent a year as they have the past the past two years. We believe this is conservative but prudent.

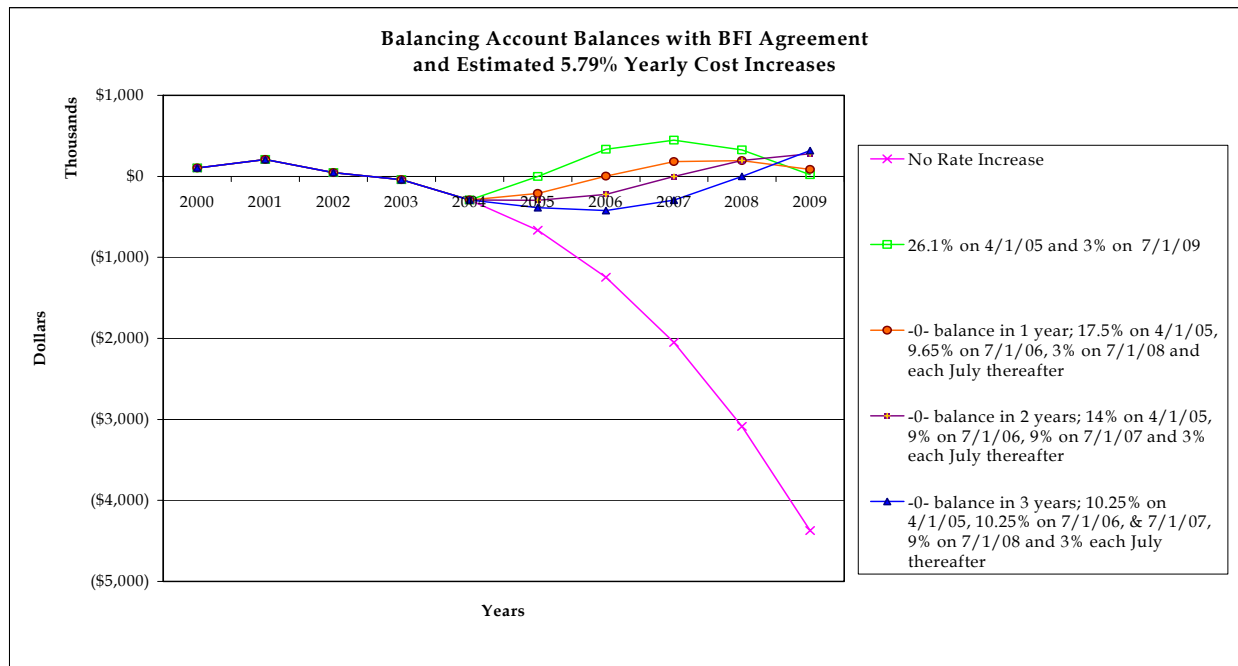
1. No Action to Adjust Fees: In 2004, the current rates provided \$3,188,406 in revenue while the expenses, consisting of costs, profit, and fees, were \$3,431, 069. The shortfall was \$247,313. When added to the reserve balance of -\$40,623, the shortfall produced a year-end reserve balance of -\$292,536. If rates are not increased, this deficit will grow to \$603,193 by the end of 2005, \$1,120,228 by 2006, \$1,855,244 by 2007, \$2,828,463 by 2008, and \$4,029,127 by 2009.
2. Option One, Lump Sum with Overfunding: Rates are increased 26.1 percent, retroactive to April 1, 2005, to pay off the deficit by the end of 2005. These rates build a maximum balance of \$447,305 by the end of 2007 without additional increase. The City would then need a small increase in 2009.
3. Option Two, Reserve Balanced by end of 2006: Rates are initially increased 17.5 percent on April 1, 2005, then increased 9.65 percent on July 1, 2006 and 3 percent each July 1

thereafter. This brings the City into balance by year-end 2006 but does not build significant reserves.

4. Option Three, Reserve Balanced by end of 2007: Rates are initially increased 14 percent on April 1, 2005, increased again 9 percent on July 1, 2006, 9 percent on July 1, 2007, and 3 percent each July 1 thereafter. This brings the City into balance by year-end 2007 but does not build significant reserves.
5. Option Four, Reserve Balanced by end of 2008: Rates are initially increased 10.25 percent on April 1, 2005, increased again 10.25 percent on July 1, 2006, 10.25 percent on July 1, 2007, 10.25 percent on July 1, 2008, and 9 percent on July 1, 2009. This brings the City into balance by year-end 2008 but does not build significant reserves.

In all cases, the effective annual rate of revenue return is lower than the percent rate increase. This is because the initial rate increase is effective April 1, 2005, or for only nine of the twelve months of the year. Subsequent rate increases are effective on July 1, or for only half of the year.

The following chart shows the balance trends for each option over a five-year period.



The “no action” baseline is not acceptable unless the City can supply other revenue to SBWMA for solid waste services. Option One, lump sum increase with overfunding, eliminates the deficit in the shortest period (end of this year) and eliminates the need for further increases until 2009. However, its initial increase of 26.1 percent is very high, both in comparison to past increases and to recent increases by other agencies (see Table 1, page 2). Option Two takes longer to eliminate the deficit (end of 2006) but it has a lower initial increase of 17.5 percent. Option

Three takes until the end of 2007 to eliminate the deficit. Its initial increase of 14 percent is comparable to Belmont's last two rate increases and it would also bring Belmont rates up to the average of the other SBWMA cities. Option Four takes until the end of 2008 to eliminate the deficit. Its initial rate 10.25 percent is the lowest of all options considered. However, it needs the highest subsequent year increases to make it balance (10.25 percent for the following two years as compared to 9 percent for Option three). In all options, each annual rate increase builds on the base of the previous year. Therefore, the options with higher initial rates can have disproportionately smaller increases in subsequent years.

Table 2 shows the effect of increasing various representative residential and commercial rates according to the options described above.

Table 2- Impact to April 1, 2005 Rates for Alternative Increases					
Service Level	Baseline No Change	Option 1 26.1% Increase	Option 2 17.5% Increase	Option 3 14% Increase	Option 4 10.25% Increase
1 can (R*)	\$14.08	\$17.75	\$16.54	\$16.05	\$15.84
2 can (R)	\$28.80	\$36.32	\$33.84	\$32.83	\$32.40
3 can (R)	\$44.16	\$55.69	\$51.89	\$50.34	\$49.68
1 yd weekly (C)	\$67.50	\$85.12	\$79.31	\$76.95	\$75.94
3 yd weekly (C)	\$202.50	\$255.35	\$237.94	\$230.85	\$227.81
3 yd biweekly (C)	\$414.00	\$522.05	\$486.45	\$471.96	\$465.75

*R = Residential curbside service, C = Commercial bin or dumpster service

Fiscal Impact

The only fiscal impact from the rate increase is a proportional increase in the City's franchise fee. This fee is set a 10 percent of annual revenue. In 2004, the City received a franchise fee of \$318,376 from BFI. On behalf of the City, SBWMA holds all revenues and pays all costs from the reserve balance account.

Public Contact

This hearing was noticed in accordance with the requirements of the Government Code.

Recommendation

Staff recommends Option Three: Approval of a 14 percent increase effective April 1, 2005. This will eliminate the deficit in about two and a half years (end of 2007). Its initial increase of 14 percent is comparable to Belmont's last two rate increases and it will bring Belmont rates up to the average set by other SBWMA cities. If the Council approves this recommendation, staff will bring recommendations for further rate increases to be effective July 1 each subsequent year.

Alternatives

Council may select one of the other three alternatives described above or may instruct staff to develop additional alternatives for consideration. However, this is the final meeting at which a rate increase approval can be included in the April 1 billing. An increase approved after this meeting would either have an effective date of July 1, which significantly reduces its effective rate of revenue return, or a separate line item for retroactive payment would need to be included in BFI's June 1 bills.

1. Option One – Initial 26.1 percent increase
2. Option Two – Initial 17.5 percent increase
3. Option Four – Initial 10.25 percent increase
4. Take no action. The City's current reserve balance deficit will continue to grow unless rates are increased. The alternative is not feasible unless the City can fund the service through other means.
5. Council may also refer this item back to staff for additional information.

Attachments

- A. Resolution
- B. Hilton, Farnkopf & Hobson Rate Model

Respectfully submitted,

Kathleen E. Phalen, P.E.
City Engineer

Raymond E. Davis, III, P.E., PTOE
Director of Public Works

Daniel Rich
Interim City Manager

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT APPROVING
A RATE INCREASE FOR SOLID WASTE MANAGEMENT**

WHEREAS, the City Council of the City of Belmont did on January 3, 2001, by virtue of Resolution 8651, award a cost-reimbursable franchise agreement to BFI Waste Systems of North America, Inc. for solid waste, recyclable materials, and plant materials collection services; and,

WHEREAS, the City Council of the City of Belmont last increased residential and commercial rates to fund a reserve balance for these BFI services on March 25, 2003, by virtue of Resolution 9384; and,

WHEREAS, increases in operating costs and fees and reduction in service levels and revenues since March 2003 necessitate a further rate increase at this time; and,

WHEREAS, the City retained Hilton, Farnkopf & Hobson, a qualified utility rate consultant, to prepare a rate model and revenue plan; and,

WHEREAS, the results from this rate model and revenue plan indicate that the adjustment is best accomplished with a fourteen percent increase retroactive to April 1, 2005 to be followed by a plan for additional annual increases on July 1 thereafter; and,

WHEREAS, a public hearing regarding the adjusted solid waste management rates was held and all objections or protests were heard on the proposed rates.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Belmont directs BFI to increase billing rates for Belmont customers fourteen percent effective April 1, 2005.

* * * * *

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on April 26, 2005 by the following vote:

AYES, COUNCILMEMBER(S): _____

NOES, COUNCILMEMBER(S): _____

ABSTAIN, COUNCILMEMBER(S): _____

ABSENT, COUNCILMEMBER(S): _____

Clerk of the City of Belmont

APPROVED:

Mayor of the City of Belmont

Baseline - No Adjustment to Rates

2005 Review (Adjusted)							
	2003	2004	2005	2006	2007	2008	2009
Revenue	3,193,530	3,183,756	3,188,406	3,188,406	3,188,406	3,188,406	3,188,406
Rev Require	3,278,311	3,431,069	3,553,205	3,759,000	3,977,000	4,207,000	4,451,000
(Shortfall)/Surplus	(84,781)	(247,313)	(364,799)	(570,594)	(788,594)	(1,018,594)	(1,262,594)
Balancing Account							
2002	45,735	(40,623)	(292,536)	(664,120)	(1,245,327)	(2,048,589)	(3,086,129)
Interest	(1,577)	(4,600)	(6,785)	(10,613)	(14,668)	(18,946)	(23,484)
Balance	(40,623)	(292,536)	(664,120)	(1,245,327)	(2,048,589)	(3,086,129)	(4,372,207)
	-1.27%	-9.19%	-20.83%	-39.1%	-64.3%	-96.8%	-137.1%
Assumes a 5.79% increase in Rev Req in 2006 - 2009 plus \$110,000 Vehicle Impact fee less reduced disposal cost							

Option 1, Lump Sum Overfunding to Balance by December 31, 2005

Assumes April 1, 2005 Increase							
2005 Estimate (Effective Rates)							
	2003	2004	2005	2006	2007	2008	2009
Revenue	3,193,530	3,183,756	3,839,536	4,088,000	4,088,000	4,088,000	4,149,000
Rev Require	3,278,311	3,431,069	3,553,205	3,759,000	3,977,000	4,207,000	4,451,000
(Shortfall)/Surplus	(84,781)	(247,313)	286,331	329,000	111,000	(119,000)	(302,000)
Balancing Account							
2002	45,735	(40,623)	(292,536)	(879)	334,241	447,305	326,092
	(1,577)	(4,600)	5,326	6,119	2,065	(2,213)	(5,617)
Balance	(40,623)	(292,536)	(879)	334,241	447,305	326,092	18,475
	-1.3%	-9.2%	0.0%	8.2%	10.9%	8.0%	0.4%
Assumes a 5.79% increase in Rev Req in 2006 - 2009 plus \$110,000 Vehicle Impact fee less reduced disposal cost							
Includes \$27,000 State Recycling refund revenue per year							
Full year increase is 26.1% plus 3% on July 1, 2009.							

Option 2 - Balanced by December 31, 2006. Annual cost increases after

Assumes Effective April 1, 2005, and each July 1st thereafter							
2005 Estimate (Effective Rates)							
	2003	2004	2005	2006	2007	2008	2009
Revenue	3,193,530	3,183,756	3,633,884	3,966,000	4,156,000	4,218,000	4,344,000
Rev Require	3,278,311	3,431,069	3,553,205	3,759,000	3,977,000	4,207,000	4,451,000
(Shortfall)/Surplus	(84,781)	(247,313)	80,679	207,000	179,000	11,000	(107,000)
Balancing Account							
2002	45,735	(40,623)	(292,536)	(210,356)	494	182,824	194,028
	(1,577)	(4,600)	1,501	3,850	3,329	205	(1,990)
Balance	(40,623)	(292,536)	(210,356)	494	182,824	194,028	85,038
	-1.3%	-9.2%	-5.8%	0.0%	4.4%	4.6%	2.0%
Assumes a 5.79% increase in Rev Req in 2006 - 2009 plus \$110,000 Vehicle Impact fee less reduced disposal cost							
Includes \$27,000 State Recycling refund revenue per year							
17.5% increase effective April 1, 2005, 9.65% increase effective July 1, 2006 3% effective July 1, 2008 and each July 1st thereafter							

Option 3 - Balanced by December 31, 2007. Annual cost increases after

Multi-Year effective as of April 1, 2005, July 1, 2006 and each July thereafter							
2005 Estimate (Effective Rates)			10.50%	8.00%	9.50%	5.00%	3.00%
	2003	2004	2005	2006	2007	2008	2009
Revenue	3,193,530	3,183,756	3,550,189	3,832,000	4,193,000	4,401,000	4,532,000
Rev Require	3,278,311	3,431,069	3,553,205	3,759,000	3,977,000	4,207,000	4,451,000
(Shortfall)/Surplus	(84,781)	(247,313)	(3,016)	73,000	216,000	194,000	81,000
Balancing Account							
2002	45,735	(40,623)	(292,536)	(295,608)	(221,251)	(1,233)	196,375
	(1,577)	(4,600)	(56)	1,358	4,018	3,608	1,507
Balance	(40,623)	(292,536)	(295,608)	(221,251)	(1,233)	196,375	278,882
	1.6%	-3.0%	-8.3%	-5.8%	0.0%	4.5%	6.2%
Assumes a 5.79% increase in Rev Req in 2006 - 2009 plus \$110,000 Vehicle Impact fee less reduced disposal cost							
Includes \$27,000 State Recycling refund revenue per year							
Rate increases of 14% as April 1, 2005, 9% as July 1, 2006, 9% as of July 1, 2007 & 3% each July thereafter.							

Option 4 - Balanced by December 31, 2008. Annual cost increases after

Multi-Year effective as of April 1, 2005, July 1, 2006 and each July thereafter							
2005 Estimate (Effective Rates)			7.69%	7.69%	10.25%	9.63%	6.00%
	2003	2004	2005	2006	2007	2008	2009
Revenue	3,193,530	3,183,756	3,460,515	3,724,000	4,103,000	4,495,000	4,763,000
Rev Require	3,278,311	3,431,069	3,553,205	3,759,000	3,977,000	4,207,000	4,451,000
(Shortfall)/Surplus	(84,781)	(247,313)	(92,690)	(35,000)	126,000	288,000	312,000
Balancing Account							
2002	45,735	(40,623)	(292,536)	(386,950)	(422,601)	(294,258)	(901)
	(1,577)	(4,600)	(1,724)	(651)	2,344	5,357	5,803
Balance	(40,623)	(292,536)	(386,950)	(422,601)	(294,258)	(901)	316,902
	1.6%	-3.0%	-11.2%	-11.3%	-7.2%	0.0%	6.7%
Assumes a 5.79% increase in Rev Req in 2006 - 2009 plus \$110,000 Vehicle Impact fee less reduced disposal cost							
Includes \$27,000 State Recycling refund revenue per year							
Rate increases of 10.25% as April 1, 2005, 10.25% as July 1, 2006 and 2007 and 9% July 1, 2008 and 3% on July 1, 2009							